



LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS ADVISORS

Boys & Girls Clubs of Central New Mexico



Combined Financial Statements
and
Independent Auditors' Report

December 31, 2017 and 2016

Boys & Girls Clubs of Central New Mexico

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Independent Auditors' Report

Board of Directors
Boys & Girls Clubs of Central New Mexico

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Boys & Girls Clubs of Central New Mexico (the "Club") (a nonprofit organization), which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Club as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated May 29, 2018, on our consideration of the Club's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Club's internal control over financial reporting and compliance.

Loftis Group ^{LLC}

Albuquerque, New Mexico
May 29, 2018

Financial Statements

Boys & Girls Clubs of Central New Mexico
Combined Statements of Financial Position
December 31,

Assets	2017	2016
Current assets		
Cash and cash equivalents	\$ 8,658	\$ 55,417
Contracts and other receivables, net	179,659	121,920
Prepaid expense	4,869	21,862
Total current assets	193,186	199,199
Investments - endowment trust	1,282,704	1,157,220
Endowment fund	153,239	142,816
Property, furniture and equipment, net	916,788	899,189
Total assets	\$ 2,545,917	\$ 2,398,424
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 148,225	\$ 81,926
Accrued liabilities	34,092	34,147
Notes payable - current portion	24,332	20,485
Line of credit	565,564	434,400
Total current liabilities	772,213	570,958
Amounts held for others	12,496	14,928
Notes payable - less current portion	95,589	36,493
Total liabilities	880,298	622,379
 Net assets		
Unrestricted		
Undesignated (deficit)	(5,294)	297,683
Designated - endowment trust	1,282,704	1,157,220
Total unrestricted net assets	1,277,410	1,454,903
Temporarily restricted	229,675	162,608
Permanently restricted	158,534	158,534
Total net assets	1,665,619	1,776,045
Total liabilities and net assets	\$ 2,545,917	\$ 2,398,424

The accompanying notes are an integral part of these financial statements.

Boys & Girls Clubs of Central New Mexico
Combined Statement of Activities
For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions and grants	\$ 683,083	\$ 152,983	\$ -	\$ 836,066
Program service fees	424,648	-	-	424,648
Special events, net of expenses of \$284,977	374,694	15,000	-	389,694
Endowment income	183,344	-	-	183,344
Summer food service meals	60,255	-	-	60,255
In-kind contributions	58,128	-	-	58,128
Other	28,863	-	-	28,863
Membership dues	22,280	-	-	22,280
Trust	1,042	-	-	1,042
Net assets released from restriction	<u>100,916</u>	<u>(100,916)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,937,253</u>	<u>67,067</u>	<u>-</u>	<u>2,004,320</u>
Expenses				
Program services	1,719,676	-	-	1,719,676
Support services				
Management and general	172,848	-	-	172,848
Fundraising	<u>222,222</u>	<u>-</u>	<u>-</u>	<u>222,222</u>
Total expenses	<u>2,114,746</u>	<u>-</u>	<u>-</u>	<u>2,114,746</u>
Change in net assets	(177,493)	67,067	-	(110,426)
Net assets, beginning of year	<u>1,454,903</u>	<u>162,608</u>	<u>158,534</u>	<u>1,776,045</u>
Net assets, end of year	<u>\$ 1,277,410</u>	<u>\$ 229,675</u>	<u>\$ 158,534</u>	<u>\$ 1,665,619</u>

The accompanying notes are an integral part of these financial statements.

Boys & Girls Clubs of Central New Mexico
Combined Statement of Activities
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions and grants	\$ 653,852	\$ 138,336	\$ -	\$ 792,188
Program service fees	401,812	-	-	401,812
Special events, net of expenses of \$264,943	268,263	-	-	268,263
Endowment income	179,805	-	-	179,805
Summer food service meals	43,521	-	-	43,521
In-kind contributions	61,002	-	-	61,002
Membership dues	24,609	-	-	24,609
Other	13,134	-	-	13,134
Trust	1,062	-	-	1,062
Net assets released from restriction	46,035	(46,035)	-	-
Total support and revenue	<u>1,693,095</u>	<u>92,301</u>	<u>-</u>	<u>1,785,396</u>
Expenses				
Program services	1,595,774	-	-	1,595,774
Support services				
Management and general	89,323	-	-	89,323
Fundraising	38,635	-	-	38,635
Total expenses	<u>1,723,732</u>	<u>-</u>	<u>-</u>	<u>1,723,732</u>
Change in net assets	(30,637)	92,301	-	61,664
Net assets, beginning of year	<u>1,485,540</u>	<u>70,307</u>	<u>158,534</u>	<u>1,714,381</u>
Net assets, end of year	<u>\$ 1,454,903</u>	<u>\$ 162,608</u>	<u>\$ 158,534</u>	<u>\$ 1,776,045</u>

The accompanying notes are an integral part of these financial statements.

Boys & Girls Clubs of Central New Mexico
Combined Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Management and General	Fund- raising	Total
Salaries	\$ 1,008,612	\$ 95,972	\$ 89,333	\$ 1,193,917
Occupancy	104,399	10,090	12,083	126,572
Professional fees	45,180	26,841	52,981	125,002
Payroll taxes	85,360	9,725	12,965	108,050
Depreciation	81,517	4,109	4,109	89,735
Program	75,178	-	-	75,178
Miscellaneous	41,096	4,109	15,737	60,942
Summer food service meals	54,335	-	-	54,335
Employee benefits	30,274	6,491	7,460	44,225
Supplies	37,991	1,452	1,935	41,378
Scholarships	35,716	-	-	35,716
Bad debt	24,228	-	8,907	33,135
Travel	10,937	6,842	6,842	24,621
Interest	19,192	2,186	2,916	24,294
Marketing	17,563	1,865	2,736	22,164
Vehicle	15,292	-	-	15,292
National dues	12,057	1,374	1,831	15,262
Rent	9,413	1,073	1,430	11,916
Loss on sale of fixed assets	5,033	-	-	5,033
Board	2,962	338	450	3,750
Postage	3,341	381	507	4,229
Total expenses	<u>\$ 1,719,676</u>	<u>\$ 172,848</u>	<u>\$ 222,222</u>	<u>\$ 2,114,746</u>

The accompanying notes are an integral part of these financial statements.

Boys & Girls Clubs of Central New Mexico
Combined Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Management and General	Fund- raising	Total
Salaries	\$ 839,321	\$ 71,278	\$ 29,699	\$ 940,298
Occupancy	103,766	620	259	104,645
Professional fees	59,418	4,874	2,031	66,323
Payroll taxes	83,745	2,558	1,066	87,369
Depreciation	96,312	30	12	96,354
Program	67,478	-	-	67,478
Miscellaneous	43,132	1,632	679	45,443
Summer food service meals	41,055	-	1,384	42,439
Employee benefits	47,470	2,152	897	50,519
Supplies	46,074	372	155	46,601
Scholarships	45,368	-	-	45,368
Bad debt	20,045	650	271	20,966
Travel	15,277	913	415	16,605
Interest	18,611	1,245	519	20,375
Marketing	20,599	1,191	496	22,286
Vehicle	14,084	4	1	14,089
National dues	11,212	562	234	12,008
Rent	10,451	725	302	11,478
Loss on sale of fixed assets	5,927	-	-	5,927
Board	3,337	280	117	3,734
Postage	3,092	237	98	3,427
Total expenses	<u>\$ 1,595,774</u>	<u>\$ 89,323</u>	<u>\$ 38,635</u>	<u>\$ 1,723,732</u>

The accompanying notes are an integral part of these financial statements.

Boys & Girls Clubs of Central New Mexico
Combined Statements of Cash Flows
For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from contributions and grants	\$ 687,705	\$ 718,663
Cash received from program service fees	388,932	356,444
Cash received from special events	674,671	350,138
Other cash receipts	52,185	38,805
Cash paid to employees and suppliers	(2,025,770)	(1,483,463)
Interest paid	(24,294)	(20,375)
Investment income	36,742	29,904
Net cash used by operating activities	<u>(209,829)</u>	<u>(9,884)</u>
Cash flows from investing activities		
Proceeds from the sale of investments	234,451	84,336
Insurance proceeds for roof repair	36,121	-
Purchases of investments	(180,601)	(39,695)
Purchases of property and equipment	(121,008)	(35,222)
Net cash provided (used) by investing activities	<u>(31,037)</u>	<u>9,419</u>
Cash flows from financing activities		
Draws on line of credit	131,164	85,000
Acquisition of note payable	85,000	-
Repayments on line of credit	-	(25,600)
Principal payments on note payable	(22,057)	(19,490)
Net cash provided by financing activities	<u>194,107</u>	<u>39,910</u>
Net increase (decrease) in cash and cash equivalents	<u>(46,759)</u>	39,445
Cash and cash equivalents, beginning of year	<u>55,417</u>	<u>15,972</u>
Cash and cash equivalents, end of year	<u>\$ 8,658</u>	<u>\$ 55,417</u>

The accompanying notes are an integral part of these financial statements.

Boys & Girls Clubs of Central New Mexico
Combined Statements of Cash Flows – continued
For the Years Ended December 31,

	2017	2016
Reconciliation of change in net assets to net cash used by operating activities		
Change in net assets	<u>\$ (110,426)</u>	<u>\$ 61,664</u>
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	89,735	96,354
Donated services and equipment	(27,480)	(18,240)
Bad debt	11,642	10,216
Net realized and unrealized gain on investments	(127,834)	(147,383)
Gain on endowment fund	(10,423)	(5,105)
Stock donations	(51,500)	(40,073)
Loss on disposal of fixed assets	5,033	5,928
Changes in assets and liabilities		
Contracts and other receivables	(69,381)	(15,212)
Prepaid expense	16,993	4,894
Accounts payable	66,299	9,933
Accrued liabilities	(55)	12,212
Amounts held for others	<u>(2,432)</u>	<u>14,928</u>
Total adjustments	<u>(99,403)</u>	<u>(71,548)</u>
Net cash used by operating activities	<u>\$ (209,829)</u>	<u>\$ (9,884)</u>

In 2017 and 2016, the Club received donated services of \$27,480 and \$18,240 for their Schumann and Seligman locations, respectively. These donated services were for the Lowe's renovation which was started in 2016 and completed in January 2017. Total construction in progress for this project was \$0 and \$35,670 at December 31, 2017 and 2016, respectively.

The accompanying notes are an integral part of these financial statements.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

1) Organization

The Boys & Girls Clubs of Central New Mexico (the “Club”) is a charitable nonprofit entity established to enable all young people, especially those who need us most, to reach their full potential as productive, responsible and caring citizens.

The Club operates two centers and four satellite locations in Albuquerque and Rio Rancho. Each center offers a wide variety of programs for youth ages 5-18. The overall program mix helps members reach all their priority outcomes: Academic success, good character and leadership and healthy lifestyles.

The Club was incorporated as a nonprofit entity under the provisions of the New Mexico Business Corporation Act in 1951.

The Club’s major sources of revenue are contributions and grants, special events, and program service fees.

2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Club have been prepared on the accrual basis of accounting and, accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Club is required to report information regarding its financial position and activities accordingly to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

The Club recognizes its interest in the net assets of the Club’s Endowment Trust (the “Trust”), which is named the Albuquerque Boys Club Foundation (the “Foundation”). The purpose of the Foundation is to provide for the future financial needs of the Club. Accordingly, the Foundation’s financial activities are included in these combined financial statements.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

2) Summary of Significant Accounting Policies – continued

Principles of Combination

The accompanying combined financial statements include the accounts of the Club and the Foundation. All material related party balances and transactions have been eliminated in combination.

Cash and Cash Equivalents

The Club considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Joint Costs

Joint costs are costs related to fund-raising activities in which programs or administrative activities can be identified and allocated as such. For example, the costs of producing and mailing a newsletter that gives general program information, but also includes a fund raising appeal, would be considered joint costs. During 2017 and 2016, the Club did not incur any significant joint costs.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the combined financial statements. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. All investments are held and managed by the Foundation.

Property, Furniture and Equipment

Purchased property, furniture and equipment, is stated at cost. Property, furniture, and equipment that is received by donation is recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

2) Summary of Significant Accounting Policies — continued

Property, Furniture and Equipment - continued

Absent donor stipulations regarding how long donated assets must be maintained, the Club reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Club reclassifies restricted net assets to unrestricted net assets at that time. Purchased or donated property in excess of \$2,500 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which range from three to forty years. Depreciation expense in the amount of \$89,735 and \$96,354 was recorded for the years ended December 31, 2017 and 2016, respectively.

Support

The Club reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or specify the time period for which the assets may be expended. When a donor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restriction. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted.

Donated Materials and Services

Donated material and services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Club. The Club received donated services of approximately \$27,000 and \$18,000 for repairs on their Schumann and Seligman locations for the years ended December 31, 2017 and 2016, respectively. Donated services are recorded at estimated fair value at date of donation.

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification, when possible. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

2) Summary of Significant Accounting Policies — continued

Income Taxes

The Club is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified by the Internal Revenue Service as an organization that is not a private foundation.

Currently, the Club engages in no activities that would be taxed as unrelated business income. Accordingly, no provision for income taxes has been reflected in the Club financial statements. The Club open audit periods are for the years ending December 31, 2014 and after. The Club adopted the provision of FASB ASC 740-10 "Accounting for Uncertainty in Income Taxes". As a result of implementation, the Club has not recognized any changes to the financial statements for uncertain tax positions.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported changes in net assets. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Club believes the carrying amount of cash and cash equivalents, receivables (net of allowances, if any), prepaid expense, accounts payable and accrued liabilities approximates fair value due to their short maturity.

Subsequent Events

Management has evaluated subsequent events through May 29, 2018, the date the financial statements were available to be issued.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

3) Contracts and Other Receivables

Contracts and other receivables consist of the following at December 31,:

	<u>2017</u>	<u>2016</u>
Contracts	\$ 92,001	\$ 85,017
Program	67,850	47,979
Events	35,435	-
Golf tournament pledges	18,936	20,930
Other	9,085	-
	<u>\$ 223,307</u>	153,926
Less allowance for doubtful accounts	<u>(43,648)</u>	<u>(32,006)</u>
Total	<u>\$ 179,659</u>	<u>\$ 121,920</u>

4) Investments – Endowment Trust

The Board of Directors of the Foundation typically consists of three members. Currently, there are two members, one of which is on the board of directors of the Club. The Trust agreement states that only the income from the Trust shall be provided to the Club. However, at the discretion of the trustees, additional Trust funds may be provided to the Club. The Trust assets have been classified as unrestricted designated net assets.

The Trust agreement also states that restricted donations may be accepted for the Club. Restricted donations may be commingled with other assets of the Trust. There were no temporarily or permanently restricted Foundation net assets at December 31, 2017 and 2016.

The following are assets and net assets of the Foundation, which are included in the Combined Statements of Financial Position at December 31:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 101,930	\$ 43,569
Investments	<u>1,180,774</u>	<u>1,113,651</u>
Net assets, unrestricted, board designated	<u>\$ 1,282,704</u>	<u>\$ 1,157,220</u>

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

4) Investments – Endowment Trust – continued

Endowment investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Common stocks	\$ 1,133,075	\$ 1,069,408
Cash equivalents	101,930	43,569
Corporate bonds	25,860	26,002
Mutual funds	<u>21,839</u>	<u>18,241</u>
Net assets, unrestricted, board designated	<u>\$ 1,282,704</u>	<u>\$ 1,157,220</u>

Endowment income consists of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Unrealized gains	\$ 72,532	\$ 128,492
Interest and dividends	36,742	28,608
Realized gains	<u>55,302</u>	<u>8,642</u>
Total endowment income	<u>\$ 164,576</u>	<u>\$ 165,742</u>

The Club's endowment consists of investments established to support the purposes and objectives of the Club. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Club classifies as unrestricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Club considers the following factors in making a determination to appropriate or accumulate endowment funds: (1) the duration and preservation of the various

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

4) Investments – Endowment Trust — continued

funds, (2) the purpose of the endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Club, and (7) the Club’s investment policies.

The Club has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes stocks, bonds, certificate of deposits and cash equivalents, intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make required distributions, while growing the funds, if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Change in unrestricted designated endowment net assets as of December 31, is as follows:

	<u>2017</u>	<u>2016</u>
Endowment net assets, beginning of year	\$ 1,157,220	\$ 1,014,405
Stock contributions	51,500	40,073
Realized gains	55,302	8,642
Interest and dividends	36,742	28,608
Net appreciation	72,532	128,492
Amounts appropriated for expenditure	<u>(90,592)</u>	<u>(63,000)</u>
Endowment net assets, end of year	<u>\$ 1,282,704</u>	<u>\$ 1,157,220</u>

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

5) Endowment Fund

In addition to the endowment trust maintained by the Club's Foundation, the Club has endowment funds that are held by the Albuquerque Community Foundation as a part of its pooled investments. The endowment assets have been classified as permanently restricted net assets.

These assets will be returned to the Club if the Albuquerque Community Foundation ceases to be a charitable organization. Investments are stated at fair value. Annual distributions can be made pursuant to the Albuquerque Community Foundation policy. Endowment net assets were valued at approximately \$153,000 and \$143,000 for the years ending December 31, 2017 and 2016, respectively.

Changes in endowment fund net assets as of December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets (deficit), beginning of year	\$ (15,718)	\$ 158,534	\$ 142,816
Investment income	1,852	-	1,852
Net appreciation	16,916	-	16,916
Investment fees	(2,522)	-	(2,522)
Grants and other	<u>(5,823)</u>	<u>-</u>	<u>(5,823)</u>
Endowment net assets (deficit), end of year	<u>\$ (5,295)</u>	<u>\$ 158,534</u>	<u>\$ 153,239</u>

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

5) Endowment fund – continued

Changes in endowment net assets as of December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets (deficit), beginning of year	\$ (20,823)	\$ 158,534	\$ 137,711
Investment income	1,296	-	1,296
Net appreciation	12,767	-	12,767
Amounts appropriated for expenditure	(378)	-	(378)
Investment fees	<u>(8,580)</u>	<u>-</u>	<u>(8,580)</u>
Endowment net assets (deficit), end of year	<u>\$ (15,718)</u>	<u>\$ 158,534</u>	<u>\$ 142,816</u>

6) **Property, Furniture and Equipment**

Property, furniture and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 1,278,935	\$ 1,173,250
Equipment	368,943	363,228
Land	243,816	231,896
Vehicles	236,932	236,932
Construction in progress	<u>-</u>	<u>35,670</u>
	2,128,626	2,040,976
Less accumulated depreciation	<u>(1,211,838)</u>	<u>(1,141,787)</u>
Total	<u>\$ 916,788</u>	<u>\$ 899,189</u>

7) **Line of credit**

The Club has a line of credit with a financial institution. The Club can take advances up to the amount of the trust investments. The agreement requires interest to be paid monthly to the financial institution at the London Interbank Offered Rate (LIBOR + 3.50%) of 3.67% at December 31, 2017 and 2016. The line of credit is secured by trust investments. At December 31, 2017 and 2016, borrowings on the line of credit were \$565,564 and \$434,400 respectively.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

8) Notes Payable

Notes payable consist of the following as of December 31,:

	2017	2016
Note payable to a financial institution, due June 2024, monthly principal and interest payments of \$529, interest at 4.25%	\$ 83,428	\$ -
Note payable to a financial institution, due August 2019, monthly principal and interest payments of \$3,374, interest at 4.99%, collateralized by two buses	36,493	56,978
Total notes payable	119,921	56,978
Less current portion	(24,332)	(20,485)
Long-term portion	\$ 95,589	\$ 36,493

Future principal payments on this note as of December 31, 2017, are as follows:

<u>Year ending December 31,:</u>	
2018	24,332
2019	17,886
2020	3,043
2021	3,185
2022	3,326
Thereafter	68,149
	\$ 119,921

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
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9) Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Comcast	\$ 73,898	\$ 57,272
Technology Lab	33,633	22,000
Boys and Girls Club of America	25,166	-
United Way Project Learn	17,865	-
Time restricted pledge	15,000	-
General Mills	10,000	-
New York Life	10,000	-
Wells Fargo	10,000	-
Write Brain	10,000	-
Other	7,789	9,290
Career Launch	5,000	-
Fidelity Investments	5,000	-
Money Matters	5,000	-
United Way Encore Fellowship	1,324	43,908
Lowe's Renovation	-	24,082
Best Buy	-	6,056
Total	<u>\$ 229,675</u>	<u>\$ 162,608</u>

10) Net Assets Released From Restrictions

Net assets released from restriction consist of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
United Way Encore Fellowship	\$ 42,584	\$ -
Lowe's Renovation	24,082	-
Comcast	16,374	-
Other	8,453	6,281
Best Buy	6,056	-
Technology Lab	3,367	30,019
PNM-Reduce Your Use	-	5,000
Garfield Site	-	4,735
Total	<u>\$ 100,916</u>	<u>\$ 46,035</u>

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

11) Special Events

All fundraising activities that generate revenue for the Club, and are not designated to a specific program, are classified as special events. These revenues are presented net of the corresponding direct expenses in the financial statements. Below are summaries of the special events for each year:

For the year ended December 31, 2017:

	<u>Revenues</u>	<u>Direct costs</u>	<u>Net</u>
Golf Tournament	\$ 151,512	\$ 15,894	\$ 135,618
Gala	223,202	118,063	105,139
Montezuma Ball	296,666	145,134	151,532
Pulling for Kids	<u>18,291</u>	<u>5,886</u>	<u>12,405</u>
Total	<u>\$ 689,671</u>	<u>\$ 284,977</u>	<u>\$ 404,694</u>

For the year ended December 31, 2016:

	<u>Revenues</u>	<u>Direct costs</u>	<u>Net</u>
Golf Tournament	\$ 163,316	\$ 15,331	\$ 147,985
Gala	308,917	199,583	109,334
Pulling for Kids	<u>60,973</u>	<u>50,029</u>	<u>10,944</u>
Total	<u>\$ 533,206</u>	<u>\$ 264,943</u>	<u>\$ 268,263</u>

12) Fair Value Measurement

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides a definition of fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The Club only has investments with Level 1 and 2 measurements.

Level 1 Fair Value Measurements – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Club has the ability to access.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
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12) Fair Value Measurements – continued

Level 2 Fair Value Measurements – The fair value of investments is based on quoted prices for similar assets in an active market, quoted prices for similar assets in inactive markets, inputs other than quoted prices that are observable for the assets, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Common stocks and corporate bonds are valued at the closing price as reported on the active market on which the individual securities are traded.

Mutual funds are valued at the net asset value of shares held by the Club at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Club management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table below segregates all financial assets and liabilities as of December 31, 2017 and 2016 that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

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Notes to Financial Statements
December 31, 2017 and 2016

12) Fair Value Measurements – continued

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
December 31, 2017			
Mutual funds:			
Growth funds	\$ 21,839	\$ 21,839	\$ -
Total mutual funds	<u>21,839</u>	<u>21,839</u>	<u>-</u>
Corporate Bonds:			
BBB- Credit Rating	<u>25,860</u>	<u>25,860</u>	<u>-</u>
Total corporate bonds	<u>25,860</u>	<u>25,860</u>	<u>-</u>
Common Stock:			
Energy	79,682	79,682	-
Financial services	197,618	197,618	-
Healthcare	180,966	180,966	-
Manufacturing	485,332	485,332	-
Natural resources	39,052	39,052	-
Telecommunications	110,973	110,973	-
Technology	4,145	4,145	-
Chemistry	2,314	2,314	-
Retailer/Wholesale	2,339	2,339	-
Transportation	<u>30,654</u>	<u>30,654</u>	<u>-</u>
Total common stock	<u>1,133,075</u>	<u>1,133,075</u>	<u>-</u>
Other:			
Cash equivalents	<u>101,930</u>	<u>-</u>	<u>101,930</u>
Total other	<u>101,930</u>	<u>-</u>	<u>101,930</u>
Sub total	1,282,704	1,180,774	101,930
Endowment Fund	<u>153,239</u>	<u>-</u>	<u>153,239</u>
Total	<u>\$ 1,435,943</u>	<u>\$ 1,180,774</u>	<u>\$ 255,169</u>

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

12) Fair Value Measurements – continued

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
December 31, 2016			
Mutual funds:			
Growth funds	\$ 18,241	\$ 18,241	\$ -
Total mutual funds	<u>18,241</u>	<u>18,241</u>	<u>-</u>
Corporate Bonds:			
BB+ Credit Rating	<u>26,002</u>	<u>26,002</u>	<u>-</u>
Total corporate bonds	<u>26,002</u>	<u>26,002</u>	<u>-</u>
Common Stock:			
Energy	125,861	125,861	-
Financial services	174,201	174,201	-
Healthcare	136,774	136,774	-
Manufacturing	452,614	452,614	-
Natural resources	39,636	39,636	-
Telecommunications	107,303	107,303	-
Technology	3,316	3,316	-
Chemistry	176	176	-
Retail/Wholesale	1,063	1,063	-
Transportation	<u>28,464</u>	<u>28,464</u>	<u>-</u>
Total common stock	<u>1,069,408</u>	<u>1,069,408</u>	<u>-</u>
Other:			
Cash equivalents	<u>43,569</u>	<u>-</u>	<u>43,569</u>
Total other	<u>43,569</u>	<u>-</u>	<u>43,569</u>
Sub total	1,157,220	1,113,651	43,569
Endowment Fund	<u>142,816</u>	<u>-</u>	<u>142,816</u>
Total	<u>\$ 1,300,036</u>	<u>\$ 1,113,651</u>	<u>\$ 186,385</u>

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

13) Subsequent Event

The Club has been named as a beneficiary to the O. Douglas Schumann and Mary Elizabeth Schumann Trust. According to the trust agreement, the Club is to receive a portion of trust funds upon the passing of O. Douglas Schumann, the Trustee. The agreement also requires that funds received be placed in an endowment. The gift is restricted solely for the purpose of serving the young people in Rio Rancho, New Mexico. As of December 31, 2017, the Club has not collected these funds as the amount to be paid to the Club is undetermined. Currently, the Club is working with the successor trustee to obtain the funds. However, as the contribution and receivable are not able to be determined the asset and revenue have not been recorded.

14) Contingent Liabilities

Through the normal course of business, the Club may become involved in litigation. While the outcome of the litigation is unknown and the liability cannot be reasonably estimated. The Club believes the liability is adequately covered by its insurance. Further, management believes that the outcome of the litigation will not have a material impact on its financial position.

15) Recently Issued Accounting Pronouncements

The following accounting pronouncements have been issued but have not yet been implemented by the Club.

Revenue Recognition

In May 2014, the FASB issued ASC 606 – *Revenue from Contracts with Customers*. ASC 606 is a single principle-based revenue standard for U.S. GAAP and IFRS (International Financial Reporting Standards) that replaces almost all U.S. GAAP and IFRS guidance for revenue recognition. The pronouncement is effective for fiscal years beginning after December 15, 2018 (the Club’s fiscal year ending December 31, 2019).

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

15) Recently Issued Accounting Pronouncements – continued

New Not-for-Profit Reporting Framework

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 is intended to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU require a not-for-profit entity to:

- ◆ Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit entity will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.
- ◆ Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than the currently required three classes. Not-for-profit entities would continue to report the currently required amount of the change in total net assets for the period.
- ◆ Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

The ASU also provides for enhanced disclosures regarding the following:

- ◆ Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits in the use of resources without donor-imposed restrictions as of the end of the period.
- ◆ Composition of *net assets with donor restrictions* at the end of the period and how the restrictions affect the use of resources.
- ◆ Qualitative information that communicates how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.

Boys & Girls Clubs of Central New Mexico
Notes to Financial Statements
December 31, 2017 and 2016

15) Recently Issued Accounting Pronouncements – continued

- ◆ Quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit entity's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- ◆ Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to the financial statements.
- ◆ Method(s) used to allocate costs among program and support functions.
- ◆ Underwater endowment funds, which include required disclosures of (1) an NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

The ASU is effective for fiscal years beginning after December 15, 2017 (the Club's fiscal year ending December 31, 2018).

Leases

On February 25, 2016, the FASB issued ASU 2016-02 *Leases*, which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB ASC Topic 840. With this update, U.S. GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position, a liability to make lease payments (the lease liability), and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2019 (the Club's fiscal year ending December 31, 2020).

As of the date of these financial statements, management has not determined the impact these new accounting pronouncements will have on future reporting.+

Independent Auditors' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Boys & Girls Clubs of Central New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Boys & Girls Clubs of Central New Mexico (the "Club") (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2017, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Club's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control. Accordingly, we do not express an opinion on the effectiveness of the Club's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Club's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Club's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Club's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Loftis Group LLC

May 29, 2018

Albuquerque, New Mexico

Boys & Girls Clubs of Central New Mexico
Schedule of Findings
For the Year Ended December 31, 2017

None.